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PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDBU RUEHDF RUEHIK RUEHLH RUEHLN
RUEHLZ RUEHPW RUEHROV RUEHVK RUEHYG
DE RUEHAH #1222 3130921
ZNR UUUUU ZZH
P 090921Z NOV 07
FM AMEMBASSY ASHGABAT
TO RUEHC/SECSTATE WASHDC PRIORITY 9681
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 2964
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0784
RUEHKO/AMEMBASSY TOKYO PRIORITY 0660
RUEHIT/AMCONSUL ISTANBUL PRIORITY 1237
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

UNCLAS ASHGABAT 001222

SIPDIS

SENSITIVE
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STATE FOR SCA/CEN, EUR/RUS, EUR/CARC, EEB
PLEASE PASS TO USTDA DAN STEIN
COMMERCE FOR HUEPER
ENERGY FOR EKIMOFF/THOMPSON

E.O. 12958: N/A

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SUBJECT: TURKMENISTAN TRIANGULATES: CONOCOPHILLIPS/LUKOIL TANDEM
READY TO STRIKE OFF-SHORE DEAL

¶1. (U) Sensitive but unclassified. Business sensitive. Not for public Internet.

¶2. (SBU) SUMMARY: ConocoPhillips and Lukoil are in the very final stages of negotiating a product-sharing agreement (PSA) for the Ordekli (Block 21) and Ogurji (Blocks 19 and 20) offshore fields. The PSA for the Ordekli field deal, with Lukoil as the operator, may be signed during the Turkmenistan International Oil and Gas Exhibition (TIOGE). ConocoPhillips will operate the Ogurji field. Each consortium member will have a 50% stake in both fields. END SUMMARY.

PSA OR PSAS?

¶3. (SBU) ConocoPhillips and Lukoil will have two separate agreements, one for Ordekli and the other for Ogurji field. The partners will have an equal 50% stake in both production areas. Under this deal, the Government of Turkmenistan will have a right to acquire up to 30% of the shares. This would require Turkmenistan to set up a national operating company, similar to KazMunaiGaz of Kazakhstan.

¶4. (SBU) The PSA's content seems to have stayed within the framework of the previous model agreement. However, the PSA with ConocoPhillips/Lukoil will not have a lifting provision. (NOTE: According to the original model PSA adopted in 1997, Turkmenistan may require the contractor to arrange the sale of Turkmenistan's share of petroleum. The contractor was entitled to recover associated costs. END NOTE.) Turkmenistan also requires more social and training elements in the newly negotiated PSAs.

CONOCOPHILLIPS TO OPEN ASHGABAT OFFICE

¶5. (SBU) According to a ConocoPhillips representative currently visiting Ashgabat, the company has already registered ConocoPhillips Turkmenistan Exploration Inc in the United States, and the company

will start working in Turkmenistan after ConocoPhillips signs its PSA. ConocoPhillips will open an initial Ashgabat office in the Ak Altyn Hotel/Office Center. ConocoPhillips' CEO plans to visit Turkmenistan during the TIOGE (November 13-15).

16. (SBU) COMMENT: The ConocoPhillips contract sets the first new precedent for a major Western company entering the Turkmenistan market in the last ten years. It will have a positive impact on the image of the country's leadership and investment regime. The deal will not only attract a host of subcontractors, but also send a signal to other oil and gas companies that Turkmenistan is now in a position to offer attractive commercial provisions and assurances of political stability. Additionally, ConocoPhillips has substantial experience working in Kazakhstan that it can share with Turkmen counterparts. END COMMENT.
HOAGLAND